

TOWNSHIP OF Sherman  
Newaygo County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Sherman	<b>County</b> Newaygo
<b>Audit Date</b> March 31, 2006	<b>Opinion Date</b> August 17, 2006	<b>Date Accountant Report Submitted to State:</b> August 17, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> <i>Campbell, Kusterer &amp; Co., P.C.</i>			

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## INDEPENDENT AUDITOR'S REPORT

August 17, 2006

To the Township Board  
Township of Sherman  
Newaygo County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Sherman, Newaygo County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Sherman's management. Our responsibility is to express opinions on these financial statements based on our audit.

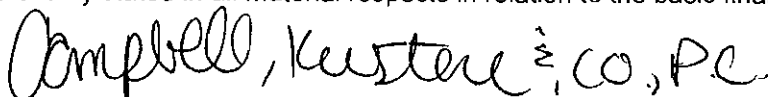
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Sherman, Newaygo County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Sherman covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$431,350.47 for governmental activities.

Overall revenues were \$329,968.04. Governmental activities had a \$88,430.75 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Road Fund, Capital Projects Fund and the Cemetery Fund.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Road Fund, Capital Projects Fund and Cemetery Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant was Fire Protection which incurred expenses of \$59,424.10.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$7,000.00 in capital assets this year.

The Township has no debt at this time.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Supervisor, Joan Obits at P.O. Box 153 Fremont, MI 49412.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	362 067 31
Taxes receivable	<u>9 079 53</u>
Total Current Assets	<u>371 146 84</u>
NON-CURRENT ASSETS:	
Capital Assets	78 347 00
Less: Accumulated Depreciation	<u>(18 143 37)</u>
Total Non-current Assets	<u>60 203 63</u>
TOTAL ASSETS	<u><u>431 350 47</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	60 203 63
Unrestricted	<u>371 146 84</u>
Total Net Assets	<u>431 350 47</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>431 350 47</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>  <u>Charges for Services</u>	<u>Governmental Activities</u> <u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	8 943 14	-	(8 943 14)
General government	66 111 51	51 675 70	(14 435 81)
Public safety	83 265 29	42 353 37	(40 911 92)
Public works	67 692 75	11 100 00	(56 592 75)
Culture and recreation	2 001 80	-	(2 001 80)
Other	13 522 80	-	(13 522 80)
<b>Total Governmental Activities</b>	<u>241 537 29</u>	<u>105 129 07</u>	<u>(163 408 22)</u>
<b>General Revenues:</b>			
Property taxes			40 084 90
State revenue sharing			151 038 39
Interest			7 302 29
Miscellaneous			<u>26 413 39</u>
<b>Total General Revenues</b>			<u>224 838 97</u>
<b>Change in net assets</b>			88 430 75
<b>Net assets, beginning of year</b>			<u>342 919 72</u>
<b>Net Assets, End of Year</b>			<u>431 350 47</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Capital Projects</u>
<u>Assets</u>			
Cash in bank	51 105 09	31 738 78	267 831 48
Taxes receivable	9 079 53	-	-
Due from other funds	<u>8 524 79</u>	<u>-</u>	<u>-</u>
Total Assets	<u><u>68 709 41</u></u>	<u><u>31 738 78</u></u>	<u><u>267 831 48</u></u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>68 709 41</u>	<u>31 738 78</u>	<u>267 831 48</u>
Total fund equity	<u><u>68 709 41</u></u>	<u><u>31 738 78</u></u>	<u><u>267 831 48</u></u>
Total Liabilities and Fund Equity	<u><u>68 709 41</u></u>	<u><u>31 738 78</u></u>	<u><u>267 831 48</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
2 867 17	353 542 52
-	9 079 53
-	8 524 79
<u>2 867 17</u>	<u>371 146 84</u>

<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>

<u>2 867 17</u>	<u>371 146 84</u>
<u>2 867 17</u>	<u>371 146 84</u>
<u>2 867 17</u>	<u>371 146 84</u>

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	371 146 84
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	78 347 00
Accumulated depreciation	<u>(18 143 37)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>431 350 47</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Capital Projects</u>
Revenues:			
Property taxes	40 084 90	-	-
Licenses and permits	23 199 80	-	-
State revenue sharing	151 038 89	-	-
Charges for services - PTAF	21 201 50	-	-
Charges for services - cemetery	-	-	-
Interest	1 413 87	383 88	5 504 54
Special assessments	53 453 37	-	-
Miscellaneous	21 863 38	4 550 01	-
Total revenues	<u>312 255 21</u>	<u>4 933 89</u>	<u>5 504 54</u>
Expenditures:			
Legislative:			
Township Board	8 943 14	-	-
General government:			
Supervisor	7 892 42	-	-
Elections	1 399 00	-	-
Assessor	11 403 13	-	-
Clerk	6 504 77	-	-
Board of Review	1 459 45	-	-
Treasurer	20 463 46	-	-
Buildings and grounds	4 085 01	-	-
Cemetery	-	-	-
Unallocated	2 079 96	-	-
Public safety:			
Fire protection	59 424 10	-	-
Inspections	6 119 70	-	-
Planning and zoning	16 321 49	-	-
Public works:			
Highways and streets	-	67 226 68	-
Drains	199 40	-	-
Culture and recreation:			
Parks and recreation	2 001 80	-	-
Other:			
Insurance	7 799 00	-	-
Pension	5 723 80	-	-
Capital outlay	7 000 00	-	-
Total expenditures	<u>168 819 63</u>	<u>67 226 68</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>143 435 58</u>	<u>(62 292 79)</u>	<u>5 504 54</u>
Other financing sources (uses):			
Operating transfers in	-	65 000 00	65 000 00
Operating transfers out	(134 000 00)	-	-
Total other financing sources (uses)	<u>(134 000 00)</u>	<u>65 000 00</u>	<u>65 000 00</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	40 084 90
-	23 199 80
-	151 038 39
-	21 201 50
7 274 40	7 274 40
-	7 302 29
-	53 453 37
-	26 413 39
<u>7 274 40</u>	<u>329 968 04</u>

-	8 943 14
-	7 892 42
-	1 399 00
-	11 403 13
-	6 504 77
-	1 459 45
-	20 463 46
-	4 085 01
10 718 31	10 718 31
-	2 079 96

-	59 424 10
-	6 119 70
-	16 321 49

-	67 226 68
-	199 40

-	2 001 80
---	----------

-	7 799 00
-	5 723 80
-	7 000 00

<u>10 718 31</u>	<u>246 764 62</u>
------------------	-------------------

<u>(3 443 91)</u>	<u>83 203 42</u>
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4 000 00	134 000 00
-	(134 000 00)
<u>4 000 00</u>	<u>-</u>

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Capital Projects</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	9 435 58	2 707 21	70 504 54
Fund balances, April 1	<u>59 273 83</u>	<u>29 031 57</u>	<u>197 326 94</u>
Fund Balances, March 31	<u>68 709 41</u>	<u>31 738 78</u>	<u>267 831 48</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
556 09	83 203 42
<u>2 311 08</u>	<u>287 943 42</u>
<u>2 867 17</u>	<u>371 146 84</u>

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 83 203 24

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(1 772 67)
Capital Outlay	<u>7 000 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 88 430 75

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Sherman, Newaygo County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sherman. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Fund

This fund is used to account for the acquisition or construction of major facilities other than those financed by propriety fund operations.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was .8416 mills, and the taxable value was \$47,629,396.00.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	30 - 50 years
Equipment	5 - 7 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$60,203.63.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 3 – Deposits and Investments (continued)

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>362 067 31</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	204 313 80
Uninsured and Uncollateralized	<u>191 467 21</u>
Total Deposits	<u>395 781 01</u>

The Township did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	51 947 00	-	-	51 947 00
Buildings	6 800 00	-	-	6 800 00
Equipment	<u>12 600 00</u>	<u>7 000 00</u>	<u>-</u>	<u>19 600 00</u>
Total	71 347 00	7 000 00	-	78 347 00
Accumulated Depreciation	<u>(16 370 70)</u>	<u>(1 772 67)</u>	<u>-</u>	<u>(18 143 37)</u>
Net Capital Assets	<u>54 976 30</u>	<u>5 227 33</u>	<u>-</u>	<u>60 203 63</u>

Note 5 – Pension Plan

The township has a defined contribution pension plan covering substantially all full time employees. During the year ended March 31, 2006, the township contributed \$5,723.80 to the plan.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**Note 7 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 8 – Building Permits**

As of March 31, 2006, the Township had building permit revenues of \$21 389.80 and building permit expenses of \$6,119.70.

**Note 9 – Interfund Receivables and Payables**

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>8 524 79</u>	Current Tax Collection	<u>8 524 79</u>
Total	<u>8 524 79</u>	Total	<u>8 524 79</u>

**Note 10 – Transfers In and Transfers Out**

For the fiscal year ended, March 31, 2006, the Township made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Capital Projects	65 000 00	General	65 000 00
Road	65 000 00	General	65 000 00
Cemetery	<u>4 000 00</u>	General	<u>4 000 00</u>
Total	<u>134 000 00</u>	Total	<u>134 000 00</u>

**Note 11 – Contingent Liability**

In November, 1978, the Township of Sherman and the City of White Cloud, Newaygo County, entered into an agreement with the County of Newaygo for the construction of a sanitary sewage disposal system. Construction of the system was financed by the issuance of \$1,605,000 County of Newaygo bonds, which principal and interest is to be paid by the White Cloud/Sherman Utilities Authority through the collection of individual user charges and/or an ad valorem tax levy. The bonds are contractually secured primarily by the full faith and credit of the Township and the City, based on a pro-rata allocation. Therefore, should collections of user charges or taxes be insufficient to repay the debt obligation, the Township's pro-rata share of the full faith and credit security was estimated to be approximately 75%. The Township anticipates the user charges and taxes will be sufficient to repay the debt obligation.

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 12 – Budget Variances

During the fiscal year ended March 31, 2006, Township expenditures exceeded the budgeted amounts in several activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund:			
Activity:			
Elections	1 100 00	1 399 00	299 00
Assessor	11 400 00	11 403 13	3 13
Fire Protection	48 600 00	59 424 10	10 824 10

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	40 000 00	61 800 00	40 084 90	(21 715 10)
License and permits	6 500 00	23 250 00	23 199 80	(50 20)
State revenue sharing	140 100 00	151 100 00	151 038 39	(61 61)
Charges for services - PTAF	-	-	21 201 50	21 201 50
Interest	400 00	1 200 00	1 413 87	213 87
Special assessments	35 000 00	38 000 00	53 453 37	15 453 37
Miscellaneous	9 000 00	15 750 00	21 863 38	6 113 38
Total revenues	231 000 00	291 100 00	312 255 21	21 155 21
Expenditures:				
Legislative:				
Township Board	9 500 00	11 000 00	8 943 14	(2 056 86)
General government:				
Supervisor	8 500 00	7 900 00	7 892 42	(7 58)
Elections	3 000 00	1 100 00	1 399 00	299 00
Assessor	11 000 00	11 400 00	11 403 13	3 13
Clerk	7 000 00	6 550 00	6 504 77	(45 23)
Board of Review	2 000 00	1 500 00	1 459 45	(40 55)
Treasurer	17 000 00	20 500 00	20 463 46	(36 54)
Building and grounds	4 500 00	4 100 00	4 085 01	(14 99)
Unallocated	12 000 00	8 850 00	2 079 96	(6 770 04)
Public safety:				
Fire protection	55 000 00	48 600 00	59 424 10	10 824 10
Inspectors	6 000 00	6 150 00	6 119 70	(30 30)
Planning and zoning	15 500 00	16 400 00	16 321 49	(78 51)
Public works:				
Drains	-	200 00	199 40	(60)
Culture and recreation:				
Parks and recreation	1 500 00	2 050 00	2 001 80	(48 20)
Other functions:				
Insurance	8 000 00	8 000 00	7 799 00	(201 00)
Pension	7 500 00	6 100 00	5 723 80	(376 20)
Capital outlay	-	7 000 00	7 000 00	-
Total expenditures	168 000 00	167 400 00	168 819 63	1 419 63
Excess (deficiency) of revenues over expenditures	63 000 00	123 700 00	143 435 58	19 735 58
Other financing sources (uses):				
Operating transfers out	(92 000 00)	(134 000 00)	(134 000 00)	-
Total other financing sources (uses)	(92 000 00)	(134 000 00)	(134 000 00)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(29 000 00)	(10 300 00)	9 435 58	19 735 58



TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Fund balance, April 1	<u>34 866 46</u>	<u>34 866 46</u>	<u>59 273 83</u>	<u>24 407 37</u>
Fund Balance, March 31	<u><u>5 866 46</u></u>	<u><u>24 566 46</u></u>	<u><u>68 709 41</u></u>	<u><u>44 142 95</u></u>

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

**BUDGETARY COMPARISON SCHEDULE – ROAD FUND**

Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Interest	-	-	383 88	383 88
Miscellaneous	-	-	4 550 01	4 550 01
Total revenues	-	-	4 933 89	4 933 89
Expenditures:				
Public works:				
Highways and streets	70 000 00	70 000 00	67 226 68	(2 773 32)
Total expenditures	70 000 00	70 000 00	67 226 68	(2 773 32)
Excess (deficiency) of revenues over expenditures	(70 000 00)	(70 000 00)	(62 292 79)	7 707 21
Other financing sources (uses):				
Operating transfers out	41 000 00	66 000 00	65 000 00	(1 000 00)
Total other financing sources (uses)	41 000 00	66 000 00	65 000 00	(1 000 00)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(29 000 00)	(4 000 00)	2 707 21	6 707 21
Fund balance, April 1	29 019 16	29 019 16	29 031 57	12 41
Fund Balance, March 31	19 16	25 019 16	31 738 78	6 719 62

TOWNSHIP OF SHERMAN  
Newaygo County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>6 438 44</u>	<u>1 649 061 04</u>	<u>1 646 974 69</u>	<u>8 524 79</u>
<u>Liabilities</u>				
Due to other funds	6 438 44	108 207 43	106 121 08	8 524 79
Due to others	<u>-</u>	<u>1 540 853 61</u>	<u>1 540 853 61</u>	<u>-</u>
Total Liabilities	<u>6 438 44</u>	<u>1 649 061 04</u>	<u>1 646 974 69</u>	<u>8 524 79</u>

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

August 17, 2006

To the Township Board  
Township of Sherman  
Newaygo County, Michigan

We have audited the financial statements of the Township of Sherman for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Sherman in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of Sherman  
Newaygo County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Sherman began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

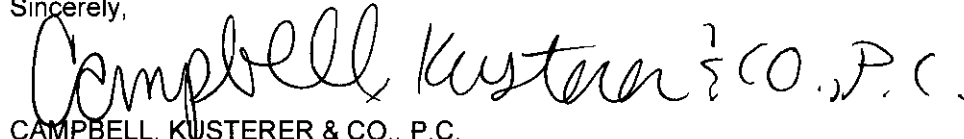
These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board  
Township of Sherman  
Newaygo County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Campbell Kusterer & Co., P.C." in a cursive, flowing script.

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants